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ABSTRACT

Technical assistance provided to loan guarantee agencies by Touche Ross and Co. under contract to the U.S. Office of Education (OE) is described. Objectives of the report are: to summarize the work performed and the results of each of the projects that were conducted; to describe certain prototype systems that were developed for the guarantee agencies; and to present recommendations to further improve program performance. Touche Ross and Co.'s services were sought to help OE meet the requirements of Section 421(c) of the 1976 Amendments to the Higher Education Act. Phase One, data collection and analysis at each existing guarantee agency, was conducted in 1977-78. The company accomplished 32 projects for 29 recipients in Phase Two. These recipients included state guarantee agencies, nonprofit corporations, state organizations, and the United Student Aid Funds. Technical assistance included: development of an accounting system; development of EDP systems user requirements and other EDP planning assistance; operations reviews; preparation of the policies and procedures for lender and school compliance programs; assistance in evaluating alternative approaches for nonagency states; and assistance in developing the plans for implementing a guarantee agency. Summaries of major technical assistance projects for 19 states are appended. (SW)

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U.S. OFFICE OF EDUCATION

FINAL REPORT OF TECHNICAL ASSISTANCE PROVIDED TO GUARANTEE AGENCIES WITH RECOMMENDATIONS FOR FURTHER IMPROVING PROGRAM PERFORMANCE

Touche Ross & Co.

Touche Ross & Co.

October 1, 1979

Mr. Dan Morrissey
U.S. Office of Education
Office of Evaluation and Dissemination
Regional Office Building 6
Room 4085
400 Maryland Avenue, S.W.
Washington, D.C. 20202

REFERENCE: Contract 300-77-0486 - Technical Assistance Phase of the Study of the Requirements for Forming State Guarantee Agencies

Dear Mr. Morrissey:

We are pleased to submit this final report of the technical assistance provided to guarantee agencies under the above-referenced contract. This report describes the technical assistance project selection process, the individual projects, and the results of each project. In addition, this report contains recommendations for improving the state agency portion of the Guaranteed Student Loan Program.

The issues discussed and the recommendations presented in this report extend and supplement the material presented in two earlier reports which Touche Ross & Co. submitted to the Office of Education:

- Perspectives on State Guaranteed Student Loan Programs (March 23, 1979); and
- Final Report: Study of the Requirements for Forming State Guarantee Agencies (June 11, 1979).

Should you or anyone to whom this document is distributed have any questions or wish to discuss our recommendations further, please call Mr. James McCoy, Mr. Joseph Kraemer or Mr. Robert Inglis at (202) 452-1200.

Very truly yours,

3 Touche Ross & Co.

1900 M STREET N.W. - WASHINGTON, D.C. 20036 - (202) 452-1200

MAY 9 1980

Touche Ross & Co.

U.S. OFFICE OF EDUCATION

FINAL REPORT OF TECHNICAL ASSISTANCE PROVIDED TO GUARANTEE AGENCIES WITH RECOMMENDATIONS FOR FURTHER IMPROVING PROGRAM PERFORMANCE

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INTRODUCTION

I. INTRODUCTION

This report describes the technical assistance provided to guarantee agencies by Touche Ross & Co. under contract to the U.S. Office of Education. The specific purposes of this report are the following:

- To summarize the work performed and the results of each of the projects that were conducted;
- To describe certain prototype systems that were developed for the guarantee agencies; and
- To present our recommendations to further improve program performance.

A. BACKGROUND

1. Education Amendments of 1976

Section 421(c) of the 1976 Amendments to the Higher Education Act required the Commissioner of Education to develop a plan to encourage the creation of guarantee agencies. As one part of its response to the intent of Congress, the Office of Education engaged Touche Ross & Co. to undertake a study which had two phases. The first phase involved data collection and analysis at each existing guarantee agency. The second consisted of providing technical assistance to states with existing or planned agencies.

2. Phase I: Data Collection and Analysis

During Phase I (October, 1977 - November, 1978), in-depth data collection and analysis took place at 24 of the 26 guarantee agencies which existed at the time the Education Amendments of 1976 were passed. The data which was collected and analyzed included information on the organizational structure, functions performed, procedures, staff, finances, and legal authority of each agency. Quantitative indicators suitable for consistent cross-state comparisons were also developed. The results of Phase I were delivered to the Office of Education in form of a Final Report (June 11, 1979). This report was subsequently delivered to Congress and distributed to other interested parties, including the management of all existing guarantee agencies.

The Final Report of Phase I:

- Summarized our findings based on data collection and analysis at the established guarantee agencies;

- Provided useful information concerning the operations of existing agencies; and

- Presented recommendations to improve the operations of both new and established agencies.

3. Nonagency State Presentations

To encourage nonagency states to create guarantee agencies, we made presentations to representatives of 13 states which had yet to sign a guarantee agency agreement with the Office of Education. These representatives were charged by the Governors of their respective states to study the issues associated with creating a guarantee agency. These presentations normally took place in a public meeting before an audience of lender, school, legislative, and student representatives. The Office of Education and the National Council of Higher Education Loan Programs participated with Touche Ross in these presentations. The questions asked during the public presentations and in private discussions with state representatives during our visits assisted in the identification of the areas of concern and the needs for assistance of the nonagency states.

B. PHASE II PROJECT APPROACH

In October 1978, the Office of Education advised existing guarantee agencies and appropriate state officials in nonagency states of the availability of technical assistance. The notice from the Office of Education identified the range of projects and the process by which a state could request assistance.

The process used to select projects and to provide assistance consisted of the seven steps described below. There were some variations in this approach from project to project, but these steps were followed in practically all of the major projects undertaken by Touche Ross & Co. *

- Step 1 -- Formal Request for Assistance

The initial step required the director of an existing agency or an appropriate state representative in a nonagency state to formally request assistance in writing from the Office of Education. These requests described the area or

* Major projects were those requiring in excess of one person week of effort. These projects are described in Appendix A.

areas in which assistance was required. When assistance was requested in more than one area, the requesting party was asked to establish priorities among the items requested.

- Step 2 -- Project Selection

The Office of Education established a Project Selection Committee for the purposes of reviewing technical assistance requests. This committee consisted of four representatives of the Office of Education and one representative of the National Council of Higher Education Loan Programs (NCHELP). Touche Ross & Co. staff participated in the committee meetings as non-voting advisers. The committee members were as follows:

- Mr. Dan Morrissey, Office of Evaluation and Dissemination (Chairman);
- Mr. John Ackley, Bureau of Student Financial Assistance;
- Mr. Peter Kuch, Office of Evaluation and Dissemination;
- Mr. David Jwamoto, Bureau of Student Financial Assistance; and
- Mr. James Leamer, Executive Director of the Maryland Higher Education Loan Corporation (representing NCHELP).

The Project Selection Committee approved 32 projects which ranged in scope from reviews of pending legislation for the creation of an agency to the design and implementation of accounting and reporting systems. The criteria used in selecting projects were as follows:

- New guarantee agencies which established their program subsequent to October 1, 1976, received first priority among the agencies requesting assistance;
- Second priority went to state officials who were studying the issues associated with forming an agency; and
- Established agencies, those in existence prior to passage of the 1976 Education Amendments, received third priority.

Over the course of its existence, the committee also developed two other criteria:

- Projects which related to problems or requirements common to other states received priority over those unique to an individual state; and

- Projects which required the commitment of agency staff and other resources in the execution and implementation of the project received priority over those that did not.

- Step 3 -- Engagement Letter

For each major project, Touche Ross & Co. prepared an engagement letter addressed to the agency director or other contact within the state. The engagement letter identified the purpose and objectives of the project, the tasks to be performed, and the anticipated schedule for completing the major project tasks. In addition, a budget of the level-of-effort required was submitted to the Office of Education.

- Step 4 -- On-Site Activities

Most projects involved some on-site time by the Touche Ross & Co. staff. Major projects usually required from one to three weeks on-site. These on-site activities included interviews with agency staff and representatives of the state government, systems documentation and review, data collection and analysis, and any other activities necessary to achieve the project objectives.

- Step 5 -- Exit Presentation

The on-site portion of each major project ended with a presentation to agency management of preliminary findings and recommendations. The purposes of these exit presentations were to review the objectives of the project, describe the scope and results of the analysis performed to date, secure agency reaction to the preliminary recommendations, and describe the remaining project activities.

- Step 6 -- Preparation of the Project Report and Implementation Plan

The nature of the project report was a function of the type of project. Operations reviews concluded with reports containing findings and recommendations for each of the issue areas reviewed. Accounting systems projects resulted in accounting manuals or reports containing recommendations for changes to an existing system. The reports for EDP systems projects were user requirements documents which defined the inputs, outputs, and processing requirements for proposed EDP systems. Projects to develop compliance programs for lenders and schools resulted in procedure manuals being developed for an agency.

Agencies were given implementation plans with many of the reports. These plans provided a structured approach to agency management for implementing the recommendations. The plans identified the specific tasks to be accomplished and contained procedures for agency management to monitor the progress of the plan and to periodically report results.

- Step 7 -- Follow-up

The follow-up provided after delivery of the report was especially important to the technical assistance projects. Follow-up visits were used to review problem areas faced by the agency and to assist in the implementation of recommendations. Agency staff were encouraged to contact Touche Ross with any questions pertaining to the implementation of the report recommendations.

SUMMARY OF TECHNICAL ASSISTANCE

II. SUMMARY OF TECHNICAL ASSISTANCE

This chapter provides a summary of the technical assistance projects completed under Phase II. This summary includes descriptions of the prototype systems developed as a result of these projects. Additional detail on the individual projects is contained in Appendix A to this report.

A. PROJECT SUMMARIES

Touche Ross & Co. accomplished 32 projects for 29 recipients. These recipients included state guarantee agencies, non-profit corporations, state organizations studying the establishment of an agency, and the major comprehensive servicer for agencies, United Student Aid Funds. Exhibit 1 is a map which shows the geographic distribution of technical assistance.

The projects ranged in size from one or two person days of technical assistance to several man-months. The smallest projects were for nonagency states needing assistance in evaluating alternatives. The largest projects involved the development of prototype systems or programs which could be modified for use in other states.

In general, there were six types of technical assistance projects. These six types were as follows:

- Development of an accounting system;
- Development of EDP systems user requirements and other EDP planning assistance;
- Operations reviews;
- Preparation of the policies and procedures for lender and school compliance programs;
- Assistance in evaluating alternative approaches for nonagency states; and
- Assistance in developing the plans for implementing a guarantee agency.

Exhibit 2 shows the number of projects by each of the six types. In addition to these six project types, there were two unique projects, one for the Massachusetts Higher Education Assistance Corporation (MHEAC) and the other for United Student Aid Funds. The project for MHEAC consisted of our assistance in the development of a revised Guarantee Agency

EXHIBIT 1

GEOGRAPHIC DISTRIBUTION OF TECHNICAL ASSISTANCE

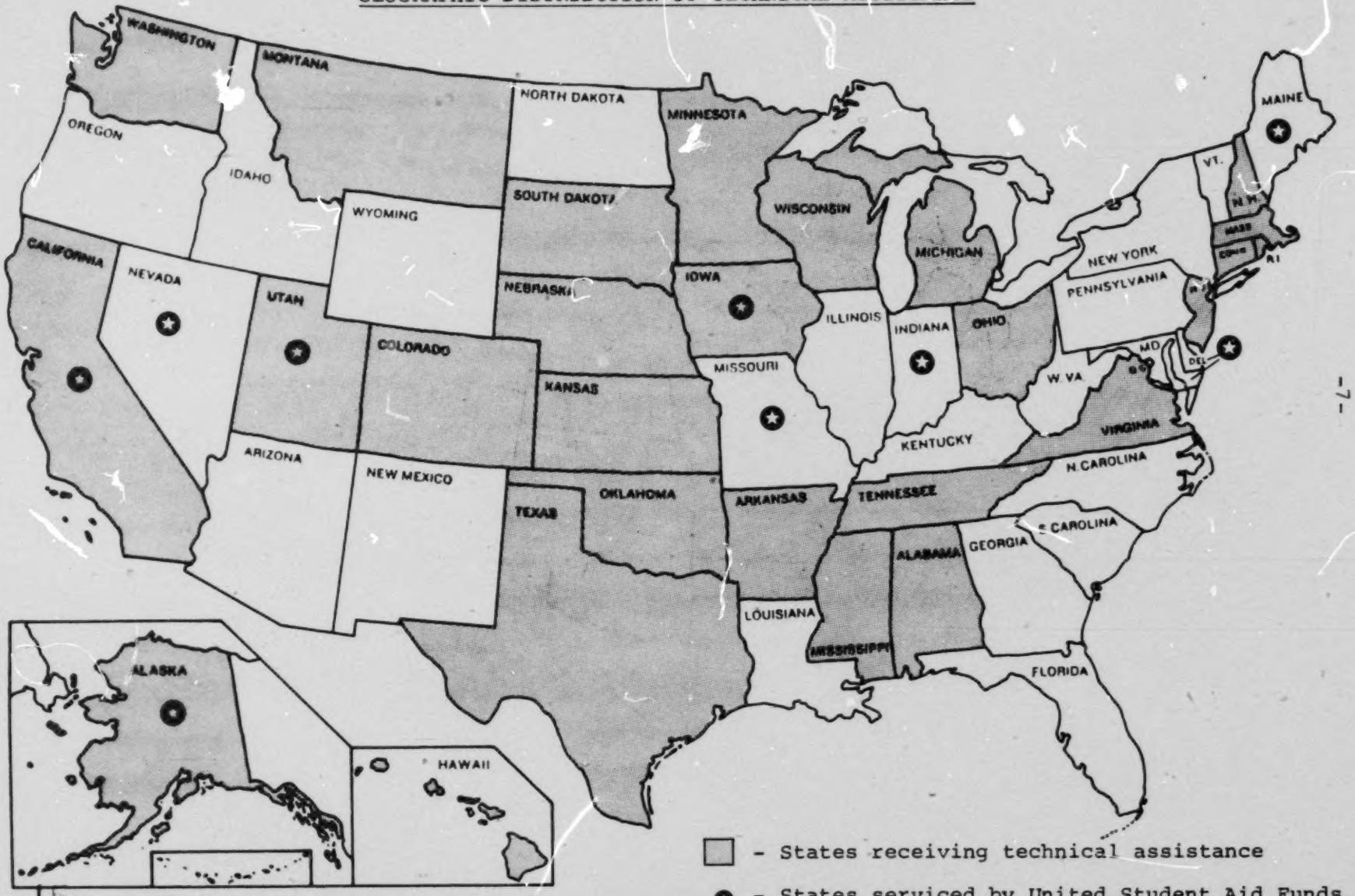

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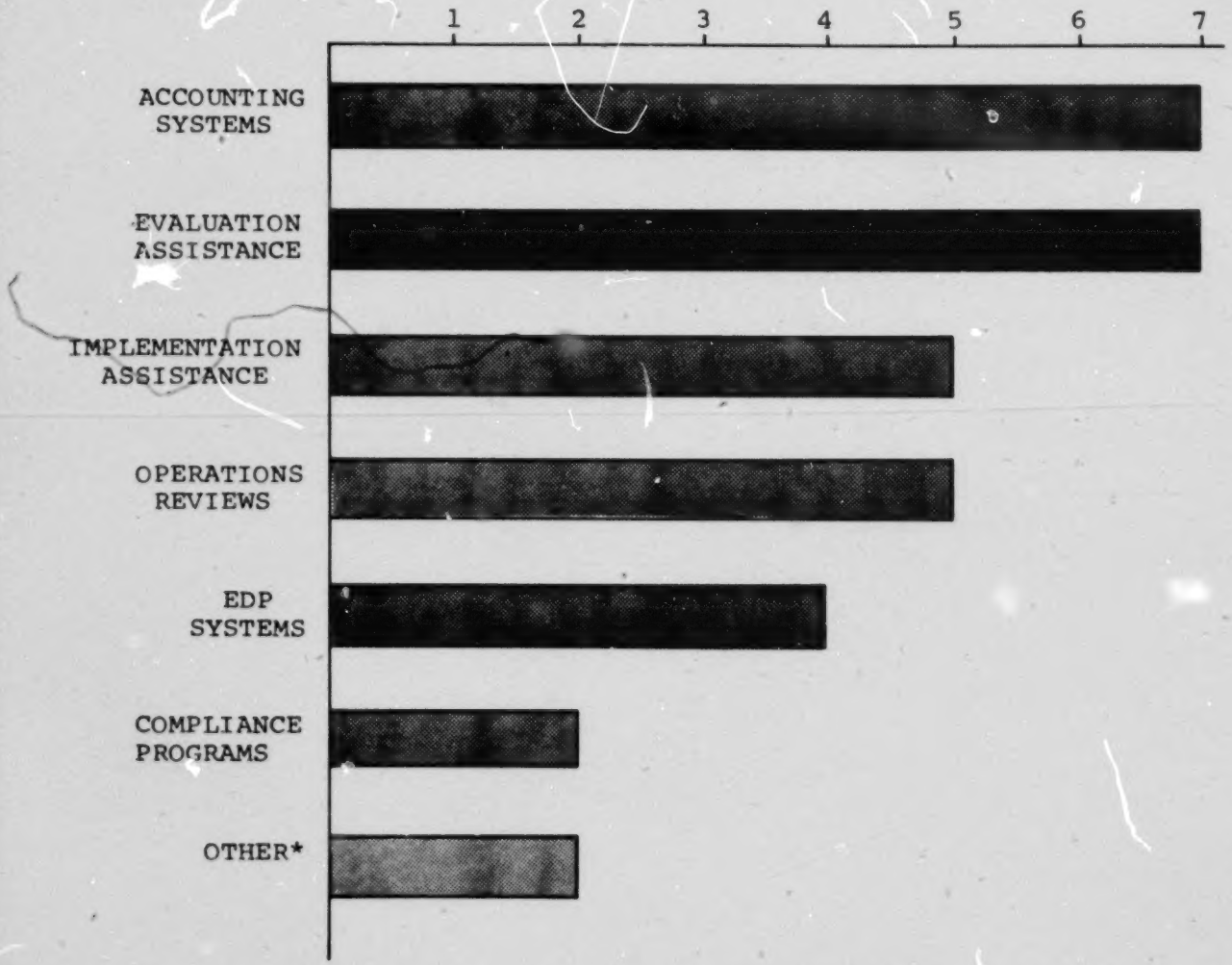
EXHIBIT 2

NUMBER OF TECHNICAL ASSISTANCE PROJECTS BY TYPE



* Projects for Massachusetts Higher Education Assistance Corporation and United Student Aid Funds.

Report (OE Form 1130). The other unique project consisted of a review of the report information requirements of agencies serviced by United Student Aid Funds.

Exhibit 3 summarizes the projects by recipient.

B. PROTOTYPE PROJECTS

1. Development of Prototypes

In order maximize the benefits of technical assistance, the initial technical assistance engagements were used to develop prototype systems. Prototypes are standard approaches to dealing with common agency problems or requirements. The prototypes developed were the following:

- The "user requirements" for the EDP system of a guarantee agency;
- A standardized agency accounting system; and
- A recommended approach for an agency's lender and school compliance program.

The Office of Education's Project Selection Committee encouraged the development of these prototypes. The Committee identified the following advantages associated with developing prototypes:

- Common solutions to common agency problems were generated.
- An increased level of standardization of procedures and reporting capability was introduced to participating agencies.
- The prototypes were incorporated into documents which would be available to new and existing agencies even after the contract with Touche Ross & Co. had expired.*
- The number of agencies which could benefit from the limited technical assistance funds available was maximized since the prototypes, once developed, reduced the time and cost associated with performing comparable work at similar-sized agencies.

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* By letter dated October 22, 1979 the Office of Education's Evaluation and Dissemination Office notified the directors of all existing agencies that the prototypes were available upon request.

Exhibit 3

PROJECT SUMMARY BY RECIPIENT

RECIPIENT	PROJECT
1. Alabama	- Evaluation Assistance
2. Alaska	- Implementation Assistance
3. Arkansas	- "User Requirements" for a Claims and Collections EDP System
4. California	- Lender and School Compliance Programs
5. Colorado	- Evaluation Assistance
6. Connecticut	- Operations Review
7. Hawaii	- Evaluation Assistance
8. Iowa	- Implementation Assistance - Accounting System

* Lender and school compliance programs were developed for the Higher Education Assistance Foundation which is the guarantee agency for Kansas and Minnesota. In this case a single project benefited two states.

Exhibit 3

PROJECT SUMMARY BY RECIPIENT
(continued)

RECIPIENT	PROJECT
9. Kansas	- Lender/School Compliance Programs*
10. Massachusetts	- Common Reporting System for CSLP Agencies
11. Michigan	- Accounting System Review
12. Minnesota	- Lender/School Compliance Programs*
13. Mississippi	- Evaluation Assistance
14. Montana	- Evaluation Assistance
15. Nebraska	- Evaluation Assistance - Implementation Assistance

* Lender and school compliance programs were developed for the Higher Education Assistance Foundation which is the guarantee agency for Kansas and Minnesota. In this case a single project benefited two states.

Exhibit 3

PROJECT SUMMARY BY RECIPIENT
(continued)

RECIPIENT	PROJECT
16. New Hampshire	- Operations Review
17. New Jersey	- Operations Review
18. Ohio	- Accounting System Review
19. Oklahoma	- Operations Review
20. Puerto Rico	- Evaluation Assistance
21. Rhode Island	- Operations Review
22. South Dakota	- Accounting System
23. Tennessee	- "User Requirements" for a Claims and Collections EDP System
24. Texas	- Implementation Assistance

Exhibit 3

PROJECT SUMMARY BY RECIPIENT
(continued)

RECIPIENT	PROJECT
25. United Student Aid Funds*	- Review of Reporting Requirements for State Agencies Serviced by USA Funds
26. Utah	- Accounting System - Guaranteed Loan Program - Accounting System - Loan Purchase Program
27. Virginia	- "User Requirements" for Guarantee Processing, Loan Servicing, Claims and Collections Systems
28. Washington	- Implementation Assistance - Accounting System
29. Wisconsin	- Review of EDP General Design Document

* United Student Aid Funds is a private, non-profit corporation which acts as a guarantor and also provides comprehensive servicing to eleven guarantee agencies.

In projects where prototypes were utilized, the prototype was tailored to the state-specific requirements of an agency before it was implemented. For example, the accounting prototype was frequently modified to incorporate the accounting and reporting requirements imposed on an agency by the state auditor and/or the state treasurer. The tailoring of the prototype enabled the agency to develop a system based on its special needs, but the cost and the elapsed time of the development effort were significantly reduced. Furthermore, the system was consistent with the requirements of the Office of Education and had certain features in common with other agencies, including the capability to periodically report consistent data.

2. Prototype Descriptions

This section contains descriptions of the three prototypes. Each description explains the reasons the prototype was developed, the benefits to an agency, and the scope of the project.

a. GUARANTEE AGENCY DATA PROCESSING REQUIREMENTS

- Recipients: Arkansas, Tennessee, Virginia, Wisconsin*

- Project Background:

  Agencies considering the development of data processing support for their operations must establish the specific requirements for an automated system. These "user requirements" are needed by the systems development staff to prepare the software and hardware packages for the agency. A user requirements document contains descriptions of the data inputs, processing requirements, and the reports that must be included in the desired system. In addition, it identifies the agency's manual procedures to be associated with the automated system. This provides the systems staff with a broader understanding of how the new system is to fit into the agency's operations.

  The two major agency processes which may benefit from automation are:

  - Loan approval processing and loan file update; and

* The project for the Wisconsin agency was a review of an EDP system general design document while the projects in the other states involved the development of user requirements.

- Claims and collections processing.

- Benefits for the Guarantee Agency:

  Many agencies already utilize computer processing in many of their functions. An agency which already employs EDP systems may employ a user requirements document to develop an upgraded system or to add additional systems support. In addition, a user requirements document is necessary when an agency without data processing support begins to plan for automation.

- Project Scope:

  The development of user requirements begins with an in-depth review of the agency's current processes and procedures so that all the existing standards and requirements can be identified and analyzed. The review team also interviews agency management to establish additional requirements and capabilities that they would like to have included in the new system. The result of this process is a user requirements document which contains the following:

  - System overview;
  - Input documents (e.g., applications and claim forms),
  - Process descriptions, to include manual system and automated support requirements; and
  - Output documents (i.e., sample formats for automated reports).

  Upon receipt and acceptance of the document by the agency, a systems analyst could prepare the general design of the new system or specify the modifications required to an existing system.

b. GUARANTEE AGENCY ACCOUNTING SYSTEM

- Recipients (6): Iowa, Michigan, Ohio, South Dakota, Utah*, Washington.

* Separate accounting systems were developed for the Utah Higher Education Assistance Authority's guarantee agency activities and its secondary market operations. Consequently, there were seven accounting system projects undertaken for six recipients.

- Project Background:

This project consists of the development of a financial accounting system for controlling and reporting on the financial transactions of a guarantee agency. A financial accounting system defines the procedures for recording financial transactions, the accounts, the books of record, and the financial reports.

- Benefits for the Guarantee Agency:

Guarantee agencies are faced with many different requirements for identifying and reporting financial data. These requirements may come from the state government, participating lenders, bond indentures for associated loan programs, or from generally accepted accounting principles, as well as from the Office of Education. An accounting system must be able to provide the necessary data to report to outside entities as well as satisfy management in meeting its responsibilities for monitoring and controlling the agency's financial position. In addition to reporting financial data the accounting system must provide adequate documentation and control of financial transactions to satisfy outside audits by an independent auditor and the Department of Health, Education and Welfare.

At a minimum an agency accounting system should be able to meet the following requirements:

- Produce periodic standard financial statements --
  - Balance Sheet;
  - Statement of Activity (revenues and expenses); and
  - Statement of Changes in Financial Position (sources and uses of funds).
- Provide cost center information in support of the Administrative Cost Allowance (ACA) report to the Office of Education.

- Maintain the accounting detail on --
  - Advances from the Office of Education;
  - Interest earnings on 1976 advance;
  - State matching funds;
  - Guarantee fees received and guarantee fees not used for operations;
  - Reinsurance owed by, and subsequently paid by, the Office of Education;
  - ACA income earned;
  - Collections on defaulted loans, collection retentions, and reimbursement owed to and paid to the Office of Education.
- Provide the information necessary to allow the agency to manage its cash relative to the need to maintain adequate cash reserves while maximizing return on investments.

- Project Scope:

The methodology employed to develop or revise an accounting system for an agency consists of the following general tasks:

- Identification of specific accounting system requirements based on Office of Education regulations and Federal law, state laws and regulations, other legal requirements, and the requirements of management.
- Documentation of the current system to understand any implicit requirements and problem areas.
- Development of an accounting system manual which includes the following components --
  - Summary of requirements;

- Formats of financial reports;
- Descriptions of accounts;
- Guidelines for posting transactions to the various accounts;
- Examples of key transactions; and
- Formats for required subledgers, journals, registers, and worksheets.

- Assistance in implementing the new accounting system by training the appropriate accounting personnel and reviewing the results of the system after an initial start-up period.

Other tasks may be performed depending on the availability of accounting staff at the agency and the assistance provided by the agency's independent auditor (if any).

c. LENDER AND SCHOOL COMPLIANCE PROGRAMS

- Recipients (3): California, Kansas, Minnesota
- Project Background:

It is in the interest of a guarantee agency to ensure that the schools and lenders participating in its program are performing in accordance with applicable Federal and agency regulations. A compliance program constitutes a structured approach to accomplishing this objective.

The scope of the compliance program includes a mix of off-site monitoring and on-site review of schools and lenders.* In the prototype the emphasis is upon training and technical assistance because most violations will be due to misunderstanding, human error, or lack of experience on the part of lender or school staff personnel.

* Off-site monitoring refers to processing and reporting activities which take place at the agency; on-site review refers to activities performed by agency personnel on the premises of schools and lenders.

- Benefits for the Guarantee Agency

Under existing law and regulations, the guarantee agencies are given wide latitude with respect to the specific features of their compliance program. However, the Office of Education is requiring assurance that guarantee agencies have the capability to insure that schools and lenders are in compliance with applicable Federal statutes and regulations.

From a management perspective, it is also in the best interest of the program that a guarantee agency have the ability to identify and deal with compliance problems before they become critical.

The primary advantages to a guarantee agency of a compliance program are the following:

- Decreased Exposure

  The default experience of an agency is dependent to some extent on the performance of the lenders and schools in its program. The reinsurance rate of most agencies is linked by Federal statute to default experience.* A compliance program can reduce the exposure of an agency by improving lender and school performance and by identifying problems early enough to allow the agency to take some corrective action.

- Improved Relations

  A compliance program can be a means of improving an agency's relationships with schools and lenders. This requires an agency to implement a compliance program which emphasizes assistance to schools and lenders rather than strict enforcement.

* The reinsurance rate falls from 100% to 90% when the default trigger exceeds 5% and drops to 80% when the default trigger exceeds 9%.

- Increased Understanding

  An agency can increase its understanding of school and lender operations through the on-site reviews associated with a compliance program. The knowledge gained can assist an agency to structure its training program, to improve its procedural requirements, and even to redesign the forms used by the agency.

- Project Scope:

  This project consists of three phases.

  - Phase I -- The state-specific requirements of the agency are identified and reviewed with the agency's management. Next the agency's selection criteria for identifying lenders and schools with problems and for conducting on-site reviews are established. The result of this phase is a detailed concept of a compliance program agreed to by the agency management.

  - Phase II -- A manual or manuals are prepared and provided to the agency's management for comment and revision. These manuals would contain the following:

    - Purpose and objectives of the program;
    - Program requirements verified through routine processing reviews;
    - Criteria for generating exception reports as part of the off-site monitoring process;
    - On-site review procedures;
    - Training and technical assistance procedures; and
    - Limitation and termination procedures.

- Phase III -- The agency tests the manual during on-site review. Follow-up assistance is provided in identifying possible modifications to the program manuals.

C. OTHER PROJECTS

In addition to the projects based on the three prototypes, we performed operations reviews, assisted in evaluation of the options available to nonagency states, and provided implementation planning to new agencies. These projects are discussed below.

1. Operations Reviews

- Recipients (5): Connecticut, New Hampshire, New Jersey, Oklahoma, Rhode Island

- Project Background:

The purposes of an operations review are to identify specific problem areas in an agency and to provide recommendations for improvement. The scope of an operations review incorporates manual processing functions, organizational structure, management policies and procedures, data processing systems, agency filing and record keeping procedures, internal and external reporting, the accounting system, and personnel policies.

- Benefits for the Guarantee Agency:

In recent years many agencies have experienced a very rapid growth in loan guarantee volume and default claims. The increased activity, along with the recent changes in program regulations, have caused strains on agency procedures, systems, and management controls. Often in such circumstances, it is useful to have an outside organization, which is familiar with the program, review current operations and make recommendations where improvement is warranted.

An agency can benefit from an operations review in several ways. For example, an outside review can provide the following:

- An objective look at policies, procedures and systems;

- A comprehensive analysis in a short time frame not possible with limited in-house resources; and

- A stimulus to bring about change in the agency.

- Project Scope:

The operations review consists of three phases:

- Phase I -- The review team performs an on-site review of the agency's operations. This review includes the following tasks:

  - Interviews with management and staff to determine their specific responsibilities, activities, constraints, and suggestions for improvement;

  - Review of relevant state legislation, agency policies, procedures, job definitions, reports, files, manuals, budgets, and performance statistics;

  - Documentation in detail of all processing functions, inputs and outputs, files, and controls;

  - Financial analysis of revenues, expenses, and investment policies; and

  - Review of internal controls and other aspects of the agency's accounting system.

  At the end of Phase I a presentation is given to the agency's management. The presentation covers the findings of the review and the preliminary recommendations developed by the review team. The purpose of the presentation is to provide management an additional opportunity to understand the findings and recommendations and to provide comment and additional information where appropriate.

- Phase II -- The review team prepares a written report of the review highlighting the findings and recommendations.

- Phase III -- A member of the review team performs a follow-up visit after the agency's management has had an opportunity to review the report. At that time, the review team member assists management in developing a Management Improvement Plan.

This Plan identifies tasks to be accomplished to implement the report's recommendations. For each task, a person is assigned responsibility and start and completion dates are specified. The Management Improvement Plan provides the agency's management a control device to ensure that the recommended changes are made.

2. Guarantee Agency Evaluation Assistance

- Recipients (7): Alabama, Colorado, Hawaii, Mississippi, Montana, Nebraska, Puerto Rico

- Project Background:

During the evaluation phase, state representatives need to review the available options, study the relevant issues, and formulate recommendations to the state legislature or the Governor. Subjects to be considered during this period include, among others, the following:

- Policy issues:
  - The role of student loans within the state student financial assistance programs;
  - The accountability of an agency to state education officials;
  - The extent to which state government and student borrowers should share in the costs of the program through state appropriations and borrower premiums;
  - The role of revenue bonds as one source of loan capital (in lieu of or as a supplement to capital supplied by commercial lenders);
- Legal issues (e.g., state constitutional prohibitions on using public credit to assist private schools);
- Structural alternatives:*
  - Designate a private non-profit corporation; or

* Under either alternative a comprehensive servicer may be used.

- Assign responsibility for the program to a new or existing state agency, board, commission, or public corporation;

- Strengths and weaknesses of the existing Federally Insured Student Loan Program; and

- Financial viability of a guarantee agency.

- Benefits for the State:

In order to deal with the issues associated with the creation of a guaranteed student loan program, state representatives needed the following:

- Specific information which was not easily available; and

- Specialized analyzes which would project some of the financial and other effects of creating a state program.

In addition, the capability of state representatives to formulate recommendations was enhanced when they had knowledge of what other states were doing in this area (especially states in the same region or with similar educational policies).

The assistance provided was designed to provide the information or the analyses required by state representatives so as to facilitate the evaluation process.

- Project Scope:

Assistance provided to a state in evaluating the issues usually involved representatives of the Office of Education and the National Council of Higher Education Loan Programs, as well as Touche Ross & Co. The assistance provided included such discrete projects as the following:

- Preparation of financial projections for a proposed agency using various assumptions based on typical agency characteristics or special assumptions identified by the requesting group;

- Collection of data on lender and school participation in the state under the Federally Insured Student Loan Program;

- Presentations on the advantages and disadvantages of different options available to the state;

- Comments on proposed legislation;

- Presentation of testimony to state legislative committees; or

- Public presentations to interested parties.

3. Guarantee Agency Implementation Assistance

- Recipients (5): Alaska, Iowa, Nebraska, Texas, Washington

- Project Background:

After a state has decided to establish a guarantee agency, there are many detailed tasks that must be accomplished before the first loan can be guaranteed. This category of assistance is oriented to those states which have passed authorizing legislation (or have done whatever equivalent executive action is required, but have yet to guarantee their first loan.

- Benefits for the Guarantee Agency:

The purpose of technical assistance during the implementation period was to ensure that agencies became operational:

- In the shortest practicable time;

- At the lowest cost consistent with management's policy and operating objectives; and

- With required systems in place prior to becoming operational.

- Project Scope:

The different types of projects undertaken were as follows:

- Development of implementation plans which identified the following:

  - Tasks to be accomplished;

- Persons responsible for accomplishing the tasks; and
- Target beginning and completion dates for the tasks.

- Assistance in the preparation of a Request for Proposal to solicit bids from prospective servicers; and
- Assistance in the evaluation of proposals received from prospective servicers.

In addition to these specific projects, states in the process of implementing agencies benefited from the application of three prototypes which were discussed above.

REMAINING TECHNICAL ASSISTANCE

REQUIREMENTS

III. REMAINING TECHNICAL ASSISTANCE REQUIREMENTS

The purpose of this chapter is to review certain remaining requirements for technical assistance on the part of the guarantee agencies. The potential recipients of further technical assistance may be divided into the following categories:

- New agencies which recently came into existence and are in the process of implementing their program;
- States which are currently evaluating the issues associated with creating a guarantee agency;
- Established agencies which have expressed interest in technical assistance but have not received any to date;
- Agencies which, because of funding constraints, received only a portion of the assistance they requested; and
- Agencies which received technical assistance but need help in implementing recommendations, especially agencies which received operations reviews.

We discuss below the various types of assistance required. We have also attempted to estimate the number of potential recipients which require assistance as of the date of this report (i.e., in addition to assistance provided under Phase II). Exhibit 4 summarizes the number of potential recipients by type of assistance.

- IMPLEMENTATION ASSISTANCE

  Implementation assistance is assistance provided to new agencies in planning the implementation of their program. Because most agencies implement their program in phases, implementation assistance may also be provided during the first operating year of a new agency. During Phase II, this type of assistance was provided as a team effort by representatives of the Office of Education, the National Council of Higher Education Loan Programs, and Touche Ross & Co. We estimate that 12 to 14 agencies could benefit in FY80 from this type of assistance.

- EVALUATION ASSISTANCE

  Evaluation assistance is provided to state representatives who are considering the creation of a guarantee agency. This type of assistance is also most effective when provided as a team effort. Seven to nine states and territories could use this type of assistance in FY80 to facilitate their understanding of the available options and of the issues associated with the program.

- ACCOUNTING SYSTEMS

We estimate that 18 to 22 agencies could utilize some form of assistance either in upgrading their current accounting system or developing a new system. The standardized guarantee agency accounting system, developed as one of the technical assistance prototypes, constitutes a basis for providing such assistance. However, the prototype would have to be tailored to meet state-specific requirements.

- DATA PROCESSING

Guarantee agencies have many operational characteristics which make Electronic Data Processing (EDP) desirable. These include:

- Large volumes of paperwork;
- Long term recordkeeping;
- Frequent access to records;
- Periodic generation of summary statistical reports for purposes of external reporting and management decisions;
- Financial accountability for loan default reserves; and
- Repetitive processing tasks.

Although EDP systems are critical to most agencies, we encountered several major problems with the existing systems and system support capabilities of many agencies.* We estimate that 13 to 15 agencies could effectively use assistance in the development of new systems or upgrading of existing systems.

- COMPLIANCE

Very few agencies have implemented a comprehensive lender and school compliance program. We estimate 25 to 29 agencies could effectively utilize some form of assistance to establish such a program. The Touche Ross & Co. prototype, "Guidelines for Guarantee Agency Lender and School Compliance Programs," can be adapted for any guarantee agency. Most agencies could develop a compliance program with lower levels of external technical assistance than would be required with accounting systems or data processing.

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* For additional details, see section on "Data Processing for Guarantee Agencies" in the next chapter.

- OPERATIONS REVIEWS

  An operations review consists of a review of all aspects of an agency's operations. Five such reviews were performed as part of the technical assistance portion of our contract. We believe that the five agencies which received this type of assistance could effectively utilize additional assistance to implement certain recommendations.

  We estimate that there are an additional eight to ten agencies which could benefit from an outside review of their operations for the purpose of developing specific recommendations for improvement.

Exhibit 4 summarizes the number of potential recipients by type of assistance.

Exhibit 4

CURRENT TECHNICAL ASSISTANCE REQUIREMENTS

	Potential Number of Agencies Needing Assistance (FY80)
• IMPLEMENTATION ASSISTANCE	12-14
• EVALUATION ASSISTANCE	7-9
• ACCOUNTING SYSTEMS	18-22
• EDP SYSTEMS	13-15
• COMPLIANCE PROGRAMS	25-29
• OPERATIONS REVIEWS	
- Follow-up Assistance	4-5
- New Reviews	8-10

ISSUES AND RECOMMENDATIONS

IV. ISSUES AND RECOMMENDATIONS

As a result of the knowledge and experience acquired during Phases I and II, we have identified five critical areas where we believe substantive changes or improvements are required. The five critical areas are as follows:

- Office of Education - Guarantee Agency Relations;
- Encouragement of New Guarantee Agencies;
- Data Processing for Guarantee Agencies;
- Financial Management and Control for Guarantee Agencies; and
- Direct Lending and Secondary Market Programs.

In this chapter we discuss certain issues in each of these areas and present recommendations which we believe are significant for the future of the Guaranteed Student Loan Program. Each section of this chapter consists of a discussion of the issues in one of the five areas immediately followed by our recommendations relating to that area. Exhibit 6 summarizes the recommendations by responsible party.

A. OFFICE OF EDUCATION - GUARANTEE AGENCY RELATIONS

The success of the state agency portion of the Guaranteed Student Loan Program is facilitated when good working relationships and open lines of communication exist between the Office of Education and the agencies. The Office of Education serves as the reinsurer of loans, source of operating and reserve funds, monitor of program activity, reviewer of agency procedures and operations, and disburser of interest subsidies and special allowance payments to lenders. The agencies insure the loans, maintain loan records, promote the program with lenders, act as collection agents on defaulted loans, process lender claims, and generally administer the program within their states.

Recently there has been considerable discussion of the appropriate roles and responsibilities of the Office of Education and the agencies. The roles are evolving and not well defined. Prior to the Education Amendments of 1976, the Office of Education operated a large direct insurance program and acted as reinsurer for state guarantee programs. Since those amendments, the Federal role has become less one of direct insurer and more one of overseer of, as well as reinsurer for, state programs.*

In recent months, communication between the Office of Education and the agencies appears to have improved. A number of operating issues are being addressed and solutions sought jointly through meetings between Office of Education staff and representatives of the National Council of Higher Education Loan Programs.

Despite this recent change, we believe it is appropriate to describe certain areas where the relations between the parties need further improvement.

- POLICY GUIDANCE

  One example of a problem in the policy guidance area is the fact that the Office of Education does not circulate the opinions of its counsel on program matters. Consequently, an opinion rendered on a matter which may have significance for many or all other agencies is closely held and applied only to the situation which originally generated a request for an opinion.**

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* In FY76 the Federally Insured Student Loan Program guaranteed 44% of the loans under the Guaranteed Student Loan Program; this percentage declined to 24% by FY78. The guarantee agencies insured the other loans under the program (i.e., 56% in FY76 and 76% in FY78).

** A specific instance of this is an opinion of counsel that a guarantee agency may not charge collection agency fees to a defaulted borrower. Several agencies follow this practice and will continue to do so as long as the Office of Education does not circulate this opinion.

Compliance is another problem area. The Office of Education's policy in the area of agency responsibilities for lender and school compliance remains undefined. Although the Office of Education appears to support the position that each agency should have a compliance program, no guidelines for such programs have been issued. Furthermore, the Office of Education has been slow to coordinate Federal and state compliance responsibilities. Consequently, lenders and schools remain subject to uncoordinated Federal and agency on-site reviews.

Probably the most significant recent problem in this area of policy guidance has been the issue of access to guaranteed loans. In this situation the policy guidance has been firmly stated (i.e., all students must have access to loan capital). However, the scope of the problem which gave rise to the policy was not documented. The Office of Education has expressed the general concern that a significant number of eligible borrowers are not able to find, or are being denied access to, loan capital under the Guaranteed Student Loan Program. However, there has been little effort to date at the Federal or state level to document the existence, extent, and geographic locations of this lack of access.

Lack of access probably does exist in certain areas.* However, there is very little hard data and no existing data collection effort is underway to define the extent of unmet demand. Consequently, the Office of Education and the agencies have tended to hold a dialogue in the dark with both parties being extremely frustrated by the lack of data.

- REPORTING AND OVERSIGHT

Congress has emphasized the role of the states in the Guaranteed Student Loan Program. It is incumbent upon the state agencies and private, nonprofit guarantors to demonstrate accountability to Congress, the public and other constituencies in terms of:

- Adequately meeting loan demand;

* In a limited series of interviews conducted by Touche Ross with school and lender representatives during Phase I, it was reported that in some states certain categories of students had difficulties securing loans. The categories most often mentioned were (a) first year students, (b) out-of-state residents, (c) students without prior banking relationships, and (d) students from rural areas where few lenders were participating. Problems of access appeared to be more acute in states using the Federally Insured Student Loan Program than in those with state guaranteed loan programs.

- Operating in a cost effective manner; and

- Keeping loan defaults at an acceptable level.

There are significant differences in the manner in which established agencies maintain their internal records. We found that many guarantee agencies had outgrown their information systems (either manual or automated) and that, consequently, internal reports were frequently inaccurate and not verifiable by reference to source data. In some cases, inaccurate internal reports have led to inaccurate external reporting.

The problem of inaccurate information affects both the Office of Education and the agencies. The Office of Education needs accurate information reported in order to exercise its oversight function with respect to guarantee agency operations. The agencies cannot demonstrate accountability without reliable access to accurate information.

There is substantial confusion on the part of the guarantee agencies as to the reporting requirements of the Office of Education. As discussed in our Phase I report, the data reported on the Guarantee Agency Monthly Report (OE Form 1130) is so inconsistent as to render inter-agency comparisons almost meaningless.

Recently, the OE Form 1130 was redesigned. The revised form is a comprehensive report of agency finances and operations which is to be submitted quarterly. The redesign process involved representatives of both the Office of Education and the National Council of Higher Education Loan Programs. This process is an example of the kind of closer working relationship which the two parties have had for several months.

The redesign of the OE Form 1130 is consistent with the role of the Office of Education as overseer of the guarantee agencies. The Office of Education has also resumed on-site reviews of the agencies as another means of exercising oversight. However, such reviews have been decentralized to the Office of Education's regional offices, most of which have traditionally had very little interaction with state guarantee agencies.

- COST REIMBURSEMENT ISSUES

The Education Amendments of 1976 provided for an Administrative Cost Allowance which could be up to one percent of an agency's annual volume of loans guaranteed. The Administrative Cost Allowance was divided into a primary and a secondary portion, each of which could be up to one-half of one percent of the

loans guaranteed. Payment was to be for costs incurred up to the maximum specified. To collect the full primary Administrative Cost Allowance, an agency had to incur costs in certain specified proportions for lender promotion, preclaims assistance, and collections. General definitions of allowable functional costs were included in the Amendments.*

In addition to providing for an Administrative Cost Allowance, the Amendments also permitted an agency to retain up to 30% of amounts collected from defaulted borrowers to cover the costs of preclaims assistance and collections which were not covered by the Administrative Cost Allowance.

Because the Office of Education has issued no guidelines to supplement the statutory definitions of allowable costs, the agencies have begun to aggregate and report costs on an inconsistent basis. Some of the major cost related issues which remain unresolved are the following:

- Should agencies depreciate capital equipment (e.g., data processing hardware) or expense the entire amount to the Administrative Cost Allowance in the year of purchase? Both practices are currently followed.

- Should agencies amortize software development costs over some assumed period?

- Many agencies are planning, or have begun, to provide services (e.g., full servicing of the portfolio) to lenders for which fees are charged the lenders. Should all the costs of providing such services be charged against the Administrative Cost Allowance or only costs in excess of fees?

- What type of verification process is appropriate for both the agencies and the Office of Education in situations where an agency uses a comprehensive servicer and the servicer provides the distribution of costs by functional category?

- What is the nature, frequency, and scope of the audit required by Section 428(f)(4)(A)(iii) of the Higher Education Act of 1965 as amended? This provision requires an audit of costs reported for reimbursement under the Administrative Cost Allowance.

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* See Section 428(f)(3)(A)-(C) of the Higher Education Act of 1965 as amended.

RECOMMENDATIONS

1. The Office of Education and the National Council of Higher Education Loan Programs should continue to expand their contacts and communications on the operating level.

2. The Office of Education should regularly distribute interpretations of regulations and opinions of counsel to all guarantee agencies.

3. The Office of Education should establish criteria for effective agency compliance programs. Touche Ross & Co. has developed a recommended approach to compliance for guarantee agencies which is sufficiently flexible to be tailored to meet state-specific requirements. This prototype package may be of assistance to the Office of Education in formulating these criteria.

4. The Office of Education should fund a study whose purposes would be (a) to operationally define access to loan capital and (b) to establish a means of monitoring access periodically on a state by state basis. The results of the study would probably be more reliable and more likely to be accepted if the National Council of Higher Education Loan Programs was involved in the formulation of the research design and the conduct of the study. The study should be given a high priority and have an elapsed time of no more than 12 months.

5. The Office of Education and the National Council of Higher Education Loan Programs should continue the process of finalizing and implementing a revised Guarantee Agency Report (OE Form 1130). This process should include at least the following:

   - Training of both agency and Office of Education staff in the use of the form;
   - Development of internal review procedures by which the Office of Education will systematically and consistently review the data reported by the agencies;
   - Development of management reports (possibly prepared by an independent automated system) for use both within the Office of Education and to report back to the agencies;
   - Development of a set of quantitative indicators for making performance comparisons among agencies and between the Federal and state loan programs; and
   - Establishment of procedures by which agencies may be selected for on-site reviews and technical assistance based on trends in data reported on the OE Form 1130.

6. The Office of Education should perform annual on-site reviews of all guarantee agencies. The central office in Washington should coordinate and participate in these reviews. The reviews should be scheduled in advance and be preceded by a letter to the agency announcing the objectives and describing the specific areas to be reviewed.

7. The Office of Education should address the outstanding cost reimbursement issues and inform the agencies as to the resolution of each issue. The teams used for on-site reviews should be knowledgeable of the Office of Education's policies in these areas.

B. ENCOURAGEMENT OF NEW GUARANTEE AGENCIES

The Education Amendments of 1976 incorporated into the Higher Education Act certain provisions (e.g., 100% reinsurance, the Administrative Cost Allowance, and Federal advances) which were designed to act as incentives for nonagency states to create guarantee agencies. Section 421(c) of the Amendments specifically required the Commissioner of Education to develop a program to encourage the creation of new state agencies.

In response to Section 421(c), the Office of Education established an encouragement program. This program was a joint effort of the Office of Education and the National Council of Higher Education Loan Programs. Touche Ross & Co., under contract to the Office of Education, assisted with the program. Typical encouragement activities undertaken in nonagency states included the following:

- Making public presentations to legislative committees, education commissions, and special task forces;
- Providing materials which described the program;
- Reviewing proposed legislation, organization plans, financial projections, and servicer proposals; and
- Responding to requests for state-specific information or analyses.

The combination of legislative incentives and the Office of Education's encouragement program has proven to be successful. There were 29 states and territories which did not have operating guarantee agencies when the Education Amendments of 1976 were passed. Since that time, 16 states have signed the appropriate agreements with the Office of Education and another two or three are expected to sign by the end of this calendar year. Exhibit 5 presents a state-by-state status report as of August 31, 1979.

Thirteen states and territories still have not established agencies. One of these, Wyoming, has officially declined to establish such an agency, and the Office of Education designated a non-profit corporation to serve as the agency. Most of the other nonagency states have shown some progress in moving towards a state program. Several of these expect to introduce enabling legislation that may be passed next year. In conclusion, while work remains, the success to date has been significant.

To assist in the continuing effort to encourage new agencies, we have listed below several issues which tend to be common to states which consider the development of a new agency.

Exhibit 5

SUMMARY OF STATUS BY STATE
(As of August 31, 1979)

STATE*	Study of Issues	Legislative/ Executive Action	Agency Implementation	OE Agreements Signed	First Loan Guaranteed
1. ALABAMA	C	I			
2. ARIZONA	C	I			
3. CALIFORNIA	C	C	C	C	C
4. COLORADO	C	C	I		
5. DISTRICT OF COLUMBIA	I				
6. FLORIDA	C	C	C	C	C
7. HAWAII	C	I			
8. IDAHO	C	C	C	C	C
9. INDIANA	C	C	C	C	C
10. IOWA	C	C	C	C	C
11. KENTUCKY	C	C	C	C	C
12. KANSAS	C	C	C	C	C
13. MINNESOTA	C	C	C	C	C
14. MISSISSIPPI	I				
15. MISSOURI	C	C	C	C	

KEY

C = Completed
I = In Process
R = Decision Taken to Reject Agency

* Includes only states and territories which did not have a guarantee agency operating at the time the Education Amendments of 1976 were passed.

Exhibit 5
(continued)

SUMMARY OF STATUS BY STATE
(As of August 31, 1979)

STATE*	Study of Issues	Legislative/ Executive Action	Agency Implementation	OE Agreements Signed	First Loan Guaranteed
16. MONTANA	C	C	I		
17. NEBRASKA	C	C	I		
18. NEW MEXICO	C	C	C	C	C
19. NORTH DAKOTA	I	C			
20. PACIFIC ISLANDS	-- No action to date --				
21. PUERTO RICO	R				
22. SOUTH CAROLINA	C	C	C	C	C
23. SOUTH DAKOTA	C	C	C	C	C
24. TEXAS	C	C	I		
25. UTAH	C	C	C	C	C
26. VIRGIN ISLANDS	C	C	C	C	C
27. WASHINGTON	C	C	C	C	
28. WEST VIRGINIA	I				
29. WYOMING**	C	R	C	C	

KEY

C = Completed
I = In Process
R = Decision Taken to Reject Agency

* Includes only states and territories which did not have a guarantee agency operating at the time the Education Amendments of 1976 were passed.

** Subsequent to the Governor of Wyoming formally rejecting the creation of a state agency, the Commissioner of Education designated a non-profit corporation, the Higher Education Assistance Foundation, to act as guarantor.

- UNMET DEMAND

Questions were raised in several states as to the level of unmet loan demand in the state. State agencies and representatives of postsecondary institutions in the state had little or no documented evidence of unmet demand. The Office of Education provided states with annual volume data for the Federally Insured Loan Program. While these data were useful for determining supply, the extent of the demand unmet by that supply was unknown.* Most states evaluating the creation of an agency were forced to rely upon the testimony of financial aid officers in the state or upon gross statistical comparisons with neighboring states.

- DEFAULT INFORMATION

With few exceptions, the parties responsible for studying the issues associated with developing a state agency request from the Office of Education current data on the default rate in that state under the Federally Insured Student Loan Program. However, this information is unobtainable. The Office of Education was only able to generate automated reports showing delinquency rates by lenders as of June 30, 1976. More recent reliable data did not exist in the Office of Education's data base.

- FINANCIAL DATA

Considerable interest was expressed in such financial information as start-up costs, operating costs during the initial years, and the financial trade-offs of using or not using a comprehensive servicer. Touche Ross & Co. developed a financial model which was used in presentations to groups in nonagency states. This model showed projected income and expenses for various loan volumes over a period of ten years. This model was also used to answer special inquiries such as:

- What happens to the financial condition of an agency that, for one reason or another, stops guaranteeing loans after the tenth year? Projections were prepared for the eleventh through twentieth year using that assumption.

- What is the impact of cumulative default rates of 10%, 15%, and 20% on an agency's eligibility for 100% reinsurance?

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* Neither the Office of Education nor the agencies have developed a consistent methodology for defining and measuring demand for loans.

- QUALIFICATIONS AND COMPENSATION FOR MANAGEMENT AND STAFF

  Several of the nonagency states had employee ceilings or budget limits which severely constrained the state from establishing an agency within the existing state government structure. In addition, some state civil service rating systems and pay scales severely hampered the hiring of management staff capable of running a state agency program. These states were especially interested in information on the acceptability and availability of non-profit corporations to act as guarantors and comprehensive servicers to administer state guarantee programs.

RECOMMENDATIONS

1. The Office of Education should continue its encouragement program at approximately the same level and in the same form as it has in the past two fiscal years. Considerable material is now available to help states understand the program and to reach decisions on the key issues associated with developing an agency.

2. The National Council of Higher Education Loan Programs should continue to assist the Office of Education in the conduct of the encouragement program. A team approach involving experienced agency personnel, Office of Education staff, and Touche Ross & Co. consultants proved effective in several states.

3. No new major statutory incentives are required. However, one minor statutory amendment would be of assistance to the new developing agencies. Section 428(f)(1)(c) requires new agencies to spend an amount equal to 20% of their primary Administrative Cost Allowance in their second and third years of operation on preclaims assistance and collections.* Given the almost negligible default experience of new agencies in their first two years, this provision should be amended to eliminate entirely the percentage requirement in the second year for spending in the areas of preclaims assistance and collections. The 20% requirement does, however, appear appropriate for the third year when an agency should be implementing procedures and systems for both preclaims assistance and collections.

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* No spending in these functional areas is required in the first year, and 50% is required in the fourth and subsequent years.

C. DATA PROCESSING FOR GUARANTEE AGENCIES

Increasing requirements for reporting and continuing legislative interest in student loan programs demand that a guarantee agency be prepared to report on its activities and its portfolio. Without the flexibility that can be provided by an automated system, even relatively small guarantee agencies may be unable to respond adequately to some questions which should be anticipated. Manual recordkeeping systems are difficult to use for researching general portfolio questions or overall trends. An automated system can be designed to provide the capability to respond to most information requests if the necessary data is available in the automated files.

Some agencies view the computer as an automated recordkeeping device and have developed a system that takes advantage of the computer's ability to store information over a long period of time and to prepare accurate reports. In these agencies, the focus is on preparing input for the computer and ensuring that accurate information about agency activities is entered into the system.

Other agencies recognize that the computer can actually perform a portion of the agency's work. For example, the computer can be programmed to compare information entered from an application against previous borrower information (e.g., the cumulative total of previous loans). Consequently, computer processing can reduce the staffing levels required for guarantee approvals since less manual review is required. The key factor is the emphasis on using the computer as part of the processing instead of using it solely as a recordkeeping device. Examples of how a computer can assist a guarantee agency in accomplishing its work include:

- Review of guarantee applications;
- Preparation of student status verification reports;
- Identification of unconverted and paid out loans;
- Preparation of reports to the Office of Education;
- Billing of defaulted borrowers;
- Maintenance of accurate accounting records; and
- Monitoring of school and lender default performance.

The considerations described above lead to the conclusion that guarantee agencies have a requirement for EDP systems if they can be acquired for a reasonable cost and are developed to meet each agency's specific requirements.

During the course of our work with the agencies, we found certain major problems with the existing systems and system support capabilities of many agencies. The major problems encountered were the following:

- Very few systems produce the full range of reports required to manage the program and to provide effective services to schools and lenders.

- Enhancements and modifications to some systems do not appear to be easily accomplished since the systems are inadequately documented. The lack of documentation hinders the ability of the agencies to understand the capabilities of their systems.

- In some cases, the volume of future transactions was underestimated at the time the systems were developed. Consequently, the access method was designed to be sequential rather than random. This inhibits the agency from using the system as anything more than an automated recordkeeping device.

- Very few agencies have systematically documented their current user requirements. Consequently, they find it almost impossible to communicate their needs for a new system or for modifications of their existing system.

- There are very few comprehensive systems in use. However, several of the existing systems are being acquired by new agency states. The quality of these systems and the ability of the purchasing agencies to maintain them is still in question.

- It is difficult for many agencies to acquire the in-house data processing expertise to effectively manage the required systems. This is due in part to low salary scales under state civil service regulations and to the lack of EDP analysts knowledgeable in student loans.

RECOMMENDATIONS

1. Agencies intent upon developing or improving their EDP capabilities should develop a user requirements document which details their requirements for EDP services. Touche Ross & Co. has developed prototype data processing requirements for guarantee agencies which can be tailored to meet state-specific requirements. The prototype document is available upon request.

2. Agencies should regularly assess the operational effectiveness of their EDP systems. This assessment should answer at least the following questions.

   - Is the extent of automation appropriate for the agency's current and projected loan guarantee activity and the services needed by the agency?
   - Does the agency's data processing facility provide an acceptable turnaround time on processing, minimal error rates, and make modifications to the system as requested by the agency?
   - Are the functions performed by the automated system fully documented, and are the functions understood by the appropriate members of the agency staff?
   - Does the system provide the summary data necessary for internal control and external reports?
   - Does the system incorporate all the modifications required by recent statutory and regulatory changes in the Guaranteed Student Loan Program?

3. Agencies with entirely manual systems should undertake a feasibility study of automating part or all of the agency's processing functions and records. An EDP feasibility study should include analyses of the following:

   - The potential benefits which might be gained from automation in the areas of loan approval processing, file maintenance, claims processing, collections, report preparation, and program controls;
   - The anticipated volume of transactions over the next five to ten years;
   - The potential costs of various automation alternatives;
   - The availability of qualified systems personnel, computer software, and hardware resources to the agency;
   - Foreseeable additional requirements that may be placed on the agency (e.g., the reporting requirements imposed by the revised Guarantee Agency Quarterly Report - OE Form 1130);
   - The ability and benefits of offering additional services to lenders (e.g., notifying lenders of loans about to mature); and
   - The willingness and capability of the agency to commit the personnel and financial resources necessary to insure that an automation project is carried out successfully.

D. FINANCIAL MANAGEMENT AND CONTROL FOR GUARANTEE AGENCIES

Guarantee agencies are publicly accountable financial institutions. They are a combination insurance company and collection agency whose operating costs are substantially funded by Federal appropriations. Each agency is required to have adequate financial management and control systems. Problems we observed are discussed below.

- ACCOUNTING SYSTEMS

  During Phase I, we collected financial information from 24 established guarantee agencies which required that we familiarize ourselves with the accounting systems of those agencies. As part of the technical assistance phase, we undertook seven accounting systems projects and also developed a prototype accounting system for a guarantee agency.

  During the course of our work, we encountered certain common problems with the existing accounting systems at many agencies. These common problems were the following:

  - Lack of a complete and documented accounting system;
  - Multiple fund accounting without adequate fund definitions and controls over transactions;
  - No established books for identifying assets, liabilities, or fund balances;
  - Accountants unfamiliar with the various legal restrictions on funds received by the agency;
  - A lack of adequate financial reports for the use of management, the governing board, or outside parties;
  - No cost accounting system;
  - Inadequate controls over the handling of cash and checks; and
  - Use of single-entry, checkbook type of record keeping rather than double-entry bookkeeping.

  Guarantee agencies which were structured as state agencies and required to utilize the state accounting system had special problems. State accounting systems, in general, are cash based systems whose primary purpose is to monitor agency expenditures against state appropriated funds. This is sufficient for most state

departments where their financial transactions are limited to disbursements against their annual appropriation. However, guarantee agencies receive income from several different sources -- the Office of Education, student insurance fees, investments, and borrowers repaying on their defaulted loans. In addition, agencies maintain cash and investments to meet future expenses or loan losses and have liabilities in the form of advances from the Office of Education. These program characteristics are not easily accommodated by most state accounting systems.

- FINANCIAL PLANNING AND CONTROL

Financial planning can be accomplished with the help of a good accounting and associated reporting system. In addition, financial planning requires a formal budget preparation process, a budget monitoring process, and long range forecasting of activity levels, associated revenues and costs, and capital expenditure requirements. Inadequate financial planning inhibits the agency from maintaining its staffing, systems, and programs at the levels necessary for proper control and servicing of the loan program.

The following are our findings regarding financial planning in agencies and the resulting impact on agency operations:

- For most agencies, financial planning is limited to an expenditure budget for the fiscal year. For agencies affiliated with state governments, these budgets may be inflated to insure coverage for all potential expenditures or severely limited because of a state budget policy which limits the increase in the current year's budget to a fixed percentage over last year's budget. In this second case, the agency must regularly request adjustments or constrain its services within the scope allowed by the budget.

- Revenue planning is limited because most agencies find it difficult to forecast the annual volume of loans guaranteed which is the primary basis upon which insurance fees and the Federal Administrative Cost Allowance are computed.

- Many agencies do not and cannot plan their expenditures so as to ensure the maximum reimbursement of costs under the Administrative Cost Allowance. In particular, many agencies lack the ability to periodically monitor their expenditures by functional cost category during the fiscal year and to adjust the pattern of

expenditures during the balance of the year. One result is that the incentives* incorporated into the Administrative Cost Allowance are only partially successful.

- AUDITS

Agencies are required to have an audit of the Administrative Cost Allowance expenses.** In some agencies no such audits take place. Other agencies are audited every year or every other year either by an independent accounting firm or the state auditor.

We found that many state agencies which receive annual audits do not obtain the results of that audit until long after the end of the fiscal year. Some audit reports were not received until one year after the close of the report period. This is especially unfortunate because these audit reports often represent the only complete financial statement that some agencies ever receive. Very few agencies received any comments on the adequacy of their internal controls or general accounting procedures from their auditor.

Another concern is the lack of effort made by agencies to audit the systems and records of their comprehensive servicers. Servicers receive and disburse funds and maintain the official program records, often without any agency involvement in these basic transactions.

RECOMMENDATIONS

1. All agencies should have their current accounting system reviewed and develop an improvement plan to correct any deficiencies found. The Touche Ross & Co. prototype can be used in assessing current systems. The prototype document discusses the requirements that should be met by an agency's accounting system and describes the features of a standard agency accounting system.

2. Agencies integrated into a state accounting system should develop an accounting system that recognizes the required state system transactions but incorporates the requirements

* These incentives are designed to encourage an agency to spend in the areas of lender promotion, preclaims assistance, and collections.

** This is required under Section 428(f)(4)(A)(iii) of the Higher Education Act of 1965 as amended.

of the Guaranteed Student Loan Program. Any changes should be discussed with state accounting personnel and the state auditor.

3. Guarantee agencies should develop quarterly and annual financial statements. These financial statements should include a balance sheet, a statement of activity, and a statement of changes in financial position.

4. Agencies should assess their financial planning practices and make improvements where necessary. This assessment should cover the following areas:

   - The adequacy of revenue budgeting;
   - The adequacy of the expense budgeting process in terms of meeting budget limits, identifying expenses by functional cost center, and maintaining adequate cash reserves to meet scheduled disbursements while maximizing return on investments;
   - The ability to generate internal management reports that identify the following:
     - Performance against budget (revenue and expenses);
     - Status of functional cost expenditures to date against projected reimbursable amounts under the Administrative Cost Allowance; and
     - Variances in the volume of loans guaranteed, claims processed, and collections from projections used in budgeting.

5. The Office of Education should assist the agencies to monitor the reimbursement due under the Administrative Cost Allowance. Many agencies are confused as to the specific methodology employed by the Office of Education to compute this reimbursement. One way to assist the agencies would be to revise the Request for Administrative Cost Allowance Payment form by incorporating the step-by-step methodology used by the Office of Education to compute the amount due to an agency. In addition, the Office of Education could advise an agency each quarter as to any indication in the data reported to date that an agency may not qualify for the full amount to which it may be entitled.

6. Guarantee agencies should have annual audits conducted by an outside organization, either the state auditor's office or an independent certified public accounting firm. The audits should include a verification of the annual financial statements and a documented assessment of the accounting procedures and internal controls of the agency.

7. The Office of Education should encourage guarantee agencies using comprehensive servicers to fund, in coordination with other agencies using the same servicer, a "third party" audit of the servicer. A third party audit is performed by one auditor, who reviews the controls of a servicer used by a variety of organizations. The third party audit report and workpapers would serve as inputs to the audits done at each of the serviced agencies. The review of controls by the third party auditor would normally include the following procedures:

   - A review of the organization and procedures for documenting program changes, file protection, and security of agency records;
   - A review of program documentation;
   - A review of controls related to input, processing, and output phases of program applications; and
   - Tests of various processes.

E. DIRECT LENDING AND SECONDARY MARKET PROGRAMS

A growing issue within the Guaranteed Student Loan Program is the monitoring and regulation of direct lender and secondary market programs. The specific programs addressed here are those established to make or buy loans using issues of tax-exempt bonds as the source of capital. These programs are especially relevant to a review of guarantee agencies for three reasons:

- Some guarantee agencies administer or are closely affiliated with these programs;
- Loans made or purchased by these organizations may soon constitute a major portion of the loan portfolios of some guarantee agencies;
- The number of these programs is growing rapidly, especially in the new agency states.

Under Phase I of our contract, we collected data on nine direct loan programs and briefly examined five secondary markets. During the technical assistance phase, our experience with this type of program was broadened.* We became aware of the numerous new agencies which were considering, or had begun, such programs and the extent to which several investment banking houses were actively marketing the concept of using tax-exempt bonds as a source of capital.

The rapid growth of direct lending programs and secondary market operations raises certain issues which should be resolved in the near future. These are discussed below.

- OPERATIONS

  Direct loan programs and secondary market operations are very new in many states. There has been insufficient time to establish the following:

  - The extent to which a guarantee agency can, or should, continue to act as an independent insurer of loans made or owned by an affiliated or related entity;
  - The ability of management to successfully administer a loan portfolio over the life of the portfolio;
  - The long term impact on commerical lender participation;

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* One major technical assistance project for the Utah Higher Education Assistance Authority was the development of an accounting system for its secondary market program.

- The effect on default rates; and

- The full extent of the subsidy provided through the U.S. Treasury when tax-exempt issues are used as a source of capital.

- OVERSIGHT

The volume of transactions and the amount of funds administered by direct lending and secondary market programs are considerable. It is very important, therefore, to understand who has oversight responsibility and how this responsibility is to be exercised. The nature of state guarantee agencies is such that systems problems are rarely catastrophic because lenders bear the primary responsibility for compliance and recordkeeping. Direct loan or secondary market programs are much different from agencies in these respects: they own loans, process payments, and bear the responsibility for due diligence. If problems occur in their operations, the consequences can be very serious for the entire program.

Unlike commercial lenders, direct lenders and secondary markets are not routinely reviewed by other public agencies (e.g., the Federal Reserve Board and the Comptroller of the Currency examine Federally chartered commercial banks). The responsibility for oversight of direct lenders and secondary markets falls to the guarantee agency and to the Office of Education. Because some direct lenders and secondary markets are affiliated with guarantee agencies, the oversight role becomes more complicated and raises questions with respect to adequate separation between the lending function and the guarantee function.

- SERVICERS

Many direct loan programs and secondary markets use a servicer to maintain records and provide reports concerning the portfolio. Servicers are usually experienced at administering loans, but they are usually geographically distant from the borrowers, the guarantee agencies, and, if a secondary market is involved, from the lenders from which the loans are purchased.

Servicers usually perform the following functions:

- Loan record maintenance;

- Conversion to repayment status;

- Interest billing;

- Repayment servicing;
- Delinquency follow-up;
- Claims filing; and
- Reporting to the owner of the loans.

The servicing of a large volume of student loans is a highly specialized activity which few organizations can perform. Servicers maintain their profitability by automated processing of high volumes of transactions at low unit costs. It remains to be determined if servicers can provide quality service when the portfolios they service involve multiple guarantors with different forms and requirements.* It also remains to be determined whether the servicers can cope with the increased loan volumes as more direct lenders and secondary market programs are established. Poor performance by a servicer could adversely affect the credit rating of an issuer, the default experience of the program, and the guarantee agency's right to 100% reinsurance.

- SPREAD BETWEEN COST OF FUNDS AND INTEREST INCOME

Direct lending and secondary market programs receive the interest subsidy and special allowance benefits as do banks or savings and loan associations. Because their capital is raised through tax exempt municipal bonds, the cost of loan capital for direct lenders and secondary market operations is significantly lower than the cost of funds to commercial lenders. The spread between the cost of money and the interest income from the loans may be in excess of the costs of administering the program and providing adequate reserves.

RECOMMENDATIONS

1. Guarantee agencies and the Office of Education should review the issues related to these programs and identify the oversight responsibilities. Direct loan or secondary market programs affiliated with guarantee agencies should be regularly reviewed by the Office of Education.

* Including the Office of Education, there are 40 operational guarantors.

2. Reports on the operations of these programs, as well as their audit reports, should be provided to the guarantee agencies and the Office of Education. Because these programs use tax-exempt bonds for financing their loans, they are usually required to have an annual audit.

3. The Office of Education should fund a comprehensive study of direct lending and secondary market programs. The study should be given a high priority and have an elapsed time of no more than nine months. The current status of these programs should be documented and their long term implication should be analyzed. Careful attention should be paid to the costs and benefits of these programs.

4. The Office of Education should consider recommending to Congress that the spread between the cost of funds and interest income for nonprofit direct lenders and secondary markets be statutorily adjusted to be more consistent with that experienced by commercial lenders. (The spread should, of course, continue to cover the reasonable costs of administering the direct loan or secondary market program and of maintaining adequate reserves.) Such an adjustment would reduce the cost to the U.S. Treasury* without interfering with the ability to issue revenue bonds to raise loan capital.

5. Direct lending and secondary market programs should be encouraged by the Office of Education and the guarantee agencies to secure third party audits of their servicers.**

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* The U.S. Treasury currently provides a double subsidy through the tax exemption for the bonds and through the payment of the interest subsidy and special allowance (no portion of which is recovered through taxes as occurs with commercial lenders).

** For a discussion of the nature of a third party audit, see Recommendation #7 under the Financial Management and Control section of this chapter.

F. SUMMARY OF RECOMMENDATIONS

The recommendations made in this chapter are summarized on Exhibit 6 by responsible party within each critical area. We believe that the performance of the state agency portion of the Guaranteed Student Loan Program will be significantly improved if these recommendations are implemented.

Exhibit 6

SUMMARY OF RECOMMENDATIONS

ISSUE AREA	RESPONSIBLE PARTY: OFFICE OF EDUCATION	RESPONSIBLE PARTY: GUARANTEE AGENCIES
A. OFFICE OF EDUCATION - GUARANTEE AGENCY RELATIONS	1. Continue to expand contacts and communications with agencies. 2. Distribute interpretations of regulations and opinions of counsel to all agencies. 3. Establish criteria for agency compliance programs. 4. Fund a study of loan access. 5. Finalize and implement the revised Guarantee Agency Report (OE Form 1130). 6. Perform annual on-site reviews of agencies. 7. Resolve cost reimbursement issues.	1. Continue to expand contacts and communications with the Office of Education. 2. Cooperate and assist with the implementation of the revised Guarantee Agency Monthly Report (OE Form 1130).
B. ENCOURAGEMENT OF NEW GUARANTEE AGENCIES	1. Continue the encouragement program. 2. Consider recommending a statutory amendment to delete the requirement that new agencies in their second year spend an amount equal to 20% of their primary ACA on preclaims assistance and collections.	1. Continue to assist the Office of Education in the conduct of the encouragement program.
C. DATA PROCESSING		1. Develop user requirements for EDP support. 2. Assess the operational effectiveness of their EDP systems to meet current program requirements. 3. Undertake a feasibility study of automating the agency. (AGENCIES WITH MANUAL SYSTEMS ONLY)

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Exhibit 6

SUMMARY OF RECOMMENDATIONS
(continued)

ISSUE AREA	RESPONSIBLE PARTY: OFFICE OF EDUCATION	RESPONSIBLE PARTY: GUARANTEE AGENCIES
D. FINANCIAL MANAGEMENT AND CONTROL	1. Revise Request for ACA Payment Form to incorporate the step-by-step methodology to compute the amount due to an agency.	1. Review the operational effectiveness of their accounting system to meet current program requirements.
	2. Encourage agencies using a comprehensive servicer to arrange for a third party audit.	2. Develop an accounting system which recognizes required state system transactions but incorporates GSLP requirements also. (AGENCIES INCORPORATED INTO STATE ACCCUNTING SYSTEMS ONLY)
		3. Develop quarterly and annual financial statements.
		4. Assess capability of current financial planning and reporting practices to meet current management requirements.
		5. Arrange for annual audits by an outside organization.
		6. Arrange for a third party audit where a comprehensive servicer is used.
E. DIRECT LENDING AND SECONDARY MARKET PROGRAMS	1. Identify oversight responsibility for direct lending and secondary market programs.	1. Assist to identify the oversight responsibility for direct lending and secondary market programs.
	2. Require annual reports from direct lenders and secondary markets.	2. Require annual reports from direct lenders and secondary markets.
	3. Fund a study of direct lending and secondary markets.	
	4. Consider recommending a statutory change which would adjust the spread between the cost of funds and interest income to be more consistent with that experienced by commercial lenders.	

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Appendix A

SUMMARY OF MAJOR TECHNICAL ASSISTANCE PROJECTS

APPENDIX A

SUMMARY OF MAJOR TECHNICAL ASSISTANCE PROJECTS

This appendix contains summaries of the major technical assistance projects conducted under Phase II of our contract with the Office of Education. A major project is defined as one in which more than one person-week of effort was involved.

Major technical assistance projects were conducted for the agencies serving as guarantors for the following states:

1. Arkansas
2. California
3. Connecticut
4. Iowa
5. Kansas*
6. Massachusetts
7. Michigan
8. Minnesota*
9. New Hampshire
10. New Jersey
11. Ohio
12. Oklahoma
13. Rhode Island
14. South Dakota
15. Tennessee
16. Texas
17. Utah (2 projects)
18. Virginia
19. Washington

In addition a major project was undertaken for United Student Aid Funds which is the comprehensive servicer for Maine, Delaware, Nevada, Alaska, Maryland, California, Utah, Iowa, Indiana, Missouri and the Virgin Islands.

* Kansas and Minnesota are served by the same agency, the Higher Education Assistance Foundation (HEAF). A single project in the area of lender and school compliance benefited both state programs.

ARKANSAS

AGENCY: Student Loan Guarantee Foundation of Arkansas

PROJECT PURPOSE:

To develop the "user requirements" for a claims and collections EDP system.

SCOPE OF PROJECT ACTIVITIES:

- Documented the procedures, forms, reports, and files used in the existing manual claims and collections system.
- Identified agency requirements for a new, automated claims and collections system.
- Reviewed the EDP systems development capacity of the state data processing department and briefed state data processing personnel on the agency's system development project.
- Prepared a report of the agency's "user requirements" based on the Touche Ross & Co. EDP prototype document.
- Briefed the agency staff on the separate steps of a typical systems development project.

RESULTS:

This project constituted the initial phase of the development process for automating the agency's claims and collections system. The "user requirements" report provided agency management with guidelines to manage the systems development process. The report also provided the state data processing staff with the programmatic and processing requirements for the proposed system. The system is currently under development as a joint project of the agency and the state data processing staff.

CALIFORNIA

AGENCY: California Student Aid Commission

PROJECT PURPOSE:

To develop the policies and procedures for a lender and school compliance program.

SCOPE OF PROJECT ACTIVITIES:

- Reviewed the California Guaranteed Student Loan Program to determine special requirements for the lender and school compliance programs.
- Assisted to coordinate the proposed California compliance program with the San Francisco regional office of the Office of Education.
- Interviewed representatives of lenders, schools, and United Student Aid Funds as part of the process of identifying California - specific requirements.
- Developed an approach to reviewing lender interest billing procedures.
- Prepared the policy and procedure manuals based on California requirements and the Touche Ross & Co. compliance program prototype.

RESULTS:

The compliance program will provide the agency with the capability to closely monitor the performance of participating schools and lenders. The program's orientation is toward training and assistance for both schools and lenders. Implementation of the program is pending the hiring of additional personnel.

CONNECTICUT

AGENCY: Connecticut Student Loan Foundation

PROJECT PURPOSE:

To perform an operations review of the Connecticut Student Loan Foundation and to make recommendations for improvement.

SCOPE OF PROJECT ACTIVITIES:

- Documented and reviewed current agency operations to include the following areas--
  - Agency policy and policy development process;
  - Organization and manpower management;
  - Processing procedures;
  - Management information systems;
  - Internal controls;
  - Records, forms, and files;
  - Accounting system and financial management;
  - Lender promotion activities; and
  - Compliance monitoring.
- Made a presentation of findings and recommendations to agency management.
- Prepared a report on the results of the operations review.
- Prepared a plan for implementing the recommendations contained in the report.

RESULTS:

The implementation plan identified specific tasks to be accomplished for each recommendation and how the tasks should be assigned, scheduled, and monitored. The agency is in the process of implementing selected recommendations.

IOWA

AGENCY: Iowa College Aid Commission

PROJECT PURPOSE:

To develop and assist in the implementation of an accounting system.

SCOPE OF PROJECT ACTIVITIES:

- Reviewed state laws and program resolutions for potential accounting system requirements.
- Reviewed the servicer's system outputs and processing procedures.
- Interviewed the agency director and representatives of the State Auditor and State Comptroller on accounting requirements and interface procedures with the State accounting system.
- Prepared an accounting manual based on the Touche Ross & Co. prototype accounting system; the manual contained the following:
  - Chart of accounts;
  - Account descriptions;
  - List of posting sources by account;
  - Formats for various books of record;
  - Report formats;
  - Report preparation instructions;
  - Sample transactions; and
  - Account closing instructions.
- Instructed the agency's accountant in the system's procedures to include bookkeeping entries and report preparation.

RESULTS:

The new accounting system has been implemented. Year-end account balances for FY79 were identified and recorded in the general ledger. Month-end reports were subsequently prepared for the first month of FY80.

KANSAS AND MINNESOTA

AGENCY: Higher Education Assistance Foundation

PROJECT PURPOSE:

To develop the policies and procedures for lender and school compliance programs.

SCOPE OF PROJECT ACTIVITIES:

- Identified U.S. Office of Education requirements for lender and school compliance monitoring and enforcement.
- Reviewed agency compliance objectives with the agency staff.
- Prepared the policy and procedures manuals for lender and school compliance programs based on Office of Education and agency requirements.
- Prepared prototype programs for lender and school compliance.

RESULTS:

The approach developed for the Higher Education Assistance Foundation was generalized into prototype programs suitable for implementation by agencies in other states. Implementation of the program has been delayed while a corporate reorganization takes place.

MASSACHUSETTS

AGENCY: Massachusetts Higher Education Assistance Corporation

PROJECT PURPOSE:

To develop an industry-wide reporting system that provided for the identification of commonly agreed upon definitions and critical ratios of agency performance.*

SCOPE OF PROJECT ACTIVITIES:

- Developed proposed formats and data element definitions for the Guarantee Agency Monthly Report (OE Form 1130).
- Participated in joint Office of Education and National Council meetings to discuss comments on proposed formats.
- Reviewed comments and completed sample forms provided by guarantee agencies.

RESULTS:

The revised CE Form 1130 eliminates the need for three other reports, reduces the number of data elements that agencies must submit to the Office of Education, and provides specific definitions for each element requested. When implemented in FY80, the revised form will provide consistent data to the Office of Education on the performance and the activities of the guarantee agencies. Comparisons among agencies and between the Federal and state programs will be possible. The data is expected to provide the basis upon which industry performance standards may be developed.

* It was agreed by the management of the agency that the purpose of the project could best be satisfied through the participation of Touche Ross & Co. in the joint effort of the Office of Education and the National Council of Higher Education Loan Programs to revise the Guarantee Agency Monthly Report (OE Form 1130).

NEW HAMPSHIRE

AGENCY: New Hampshire Higher Education Assistance Foundation

PROJECT PURPOSE:

To perform an operations review of the New Hampshire Higher Education Assistance Foundation and to make recommendations for improvement.

SCOPE OF PROJECT ACTIVITIES:

- Documented and reviewed current agency operations to include the following areas--
  - Agency policies and its policy development process;
  - Organization and manpower management;
  - Processing procedures;
  - Management information systems;
  - Internal controls;
  - Records, forms, and files;
  - Accounting system and financial management;
  - Lender promotion activities; and
  - Compliance monitoring.
- Made a presentation of findings and preliminary recommendations to agency director.
- Prepared report of findings and recommendations.
- Conducted a follow-up visit to discuss the report and to develop a plan for implementing the recommendations.

RESULTS:

The report covered a variety of issues, including the need to study the issues associated with automating the agency. The implementation plan discussions centered on assigning priorities to projects and identifying resources available to carry out recommendations. The agency is in the process of implementing the recommendations.

MICHIGAN

AGENCY: Michigan Higher Education Assistance Authority

PROJECT PURPOSE:

To review the current accounting system and to make recommendations for improvement.

SCOPE OF PROJECT ACTIVITIES:

- Documented existing accounting system procedures and records.
- Established agency requirements for an accounting system.
- Identified changes to be made in current system.
- Prepared a report documenting recommendations.
- Provided follow-up assistance to support implementation of recommendations.

RESULTS:

It was recommended to the agency management that they convert their accounting system to a double-entry, partial accrual system based on the Touche Ross & Co. prototype. The report provided a description of this system, including a chart of accounts and formats for financial reports. An implementation plan for accomplishing the report recommendations was also contained in the report. The agency is in the process of studying the recommendations.

NEW JERSEY

AGENCY: New Jersey Higher Education Assistance Authority

PROJECT PURPOSE:

To perform an operations review of the guaranteed student loan program and to make recommendations for improvement.

SCOPE OF PROJECT ACTIVITIES:

- Documented and reviewed current agency operations to include the following areas--
  - Agency policy and policy development process;
  - Organizatiton and manpower management;
  - Processing procedures;
  - Management information systems;
  - Internal controls;
  - Records, forms, and files;
  - Accounting system and financial management;
  - Lender promotion activities;
  - Compliance monitoring; and
  - Direct loan program.
- Made a presentation of findings and recommendations to agency management.
- Prepared a report on the results of the operations review.
- Prepared a plan for implementing the recommmendations contained in the report.

RESULTS:

The implementation plan identified specific tasks to be accomplished for each recommendation and how the tasks should be assigned, scheduled, and monitored. The agency is studying the recommendations made in the report.

CHIO

AGENCY: Ohio Student Loan Commission

PROJECT PURPOSE:

To review the current accounting system and to make recommendations for improvement.

SCOPE OF PROJECT ACTIVITIES:

- Documented existing accounting system procedures and records.
- Established agency requirements for an accounting system.
- Identified changes to be made in current system.
- Prepared a report documenting recommendations.
- Provided follow-up assistance to support implementation of recommendations.

RESULTS:

It was recommended to agency management that they convert their accounting system to a double-entry, partial accrual system based on the Touche Ross & Co. prototype. The report provided a description of this system, including a chart of accounts and formats for financial reports. An implementation plan for accomplishing the recommendations was also contained in the report. The agency is in the process of studying the recommendations.

OKLAHOMA

AGENCY: Oklahoma State Regents for Higher Education

PROJECT PURPOSE:

To perform an operations review of the guaranteed student loan program and to make recommendations for improvement.

SCOPE OF PROJECT ACTIVITIES:

- Documented and reviewed current agency operations to include the following areas--
  - Agency policies and policy development process;
  - Organization and manpower management;
  - Processing procedures;
  - Management information systems;
  - Internal controls;
  - Records, forms, and files;
  - Accounting system and financial management;
  - Lender promotion activities; and
  - Compliance monitoring.
- Made a presentation of findings and recommendations to agency management.
- Prepared a report on the results of the operations review.
- Prepared a plan for implementing the recommendations contained in the report.

RESULTS:

The implementation plan identified agency staff members responsible for individual activities, set time guidelines for accomplishing the activities, and established priorities among the different activities. The agency is in the process of implementing selected recommendations.

RHODE ISLAND

AGENCY: Rhode Island Higher Education Assistance Authority

PROJECT PURPOSE:

To perform an operations review of the Rhode Island Higher Education Assistance Authority and to make recommendations for improvement.

SCOPE OF PROJECT ACTIVITIES:

- Documented and reviewed current agency operations to include the following areas--
  - Agency policies and policy development process;
  - Organization and manpower management;
  - Processing procedures;
  - Management information systems;
  - Internal controls;
  - Records, forms, and files;
  - Accounting system and financial management;
  - Lender promotion activities; and
  - Compliance monitoring.
- Made a presentation of findings and recommendations to agency management.
- Prepared a report on the results of the operations review.
- Prepared a plan for implementing the recommendations contained in the report.

RESULTS:

The implementation plan identified specific tasks to be accomplished for each recommendation and how the tasks should be assigned, scheduled, and monitored. The agency is in the process of implementing selected recommendations, including the development of a revised lenders' manual.

SOUTH DAKOTA

AGENCY: South Dakota Education Assistance Corporation

PROJECT PURPOSE:

To develop and assist in the implementation of an accounting system.*

SCOPE OF PROJECT ACTIVITIES:

- Identified accounting system requirements by means of interviews of selected personnel at the Office of Education, agency staff, and the agency's outside auditors.
- Developed a chart of accounts and the appropriate books of record.
- Assisted to train the agency's staff in the use of the new system.
- Developed a generalized prototype accounting system suitable for use by other agencies.

RESULTS:

Guidance was provided to SDEAC's auditors in developing the accounting system and manual. The prototype accounting system developed as a result of this project has served as a basis for accounting systems in several other states.

* This project led to the development of the prototype accounting system.

TENNESSEE

AGENCY: Tennessee Student Assistance Corporation

PROJECT PURPOSE:

To develop the "user requirements" for a claims and collections EDP system.

SCOPE OF PROJECT ACTIVITIES:

- Documented the current procedures, forms, reports, and files used in the existing manual claims and collections system.
- Identified agency requirements for a new, automated claims and collections system.
- Reviewed the EDP systems development capacity of the state data processing department and briefed state data processing personnel on the agency's system development project.
- Prepared a report on the "user requirements" based on the Touche Ross & Co. EDP prototype document.
- Briefed the agency staff on the separate steps of a typical systems development project.

RESULTS:

This project constituted the initial phase of the development process for automating the agency's claims and collections system. The "user requirements" report provided agency management with guidelines to manage the systems development process. The report also provided the state data processing staff with the necessary programmatic and processing requirements for the proposed system. The system is currently under development as a joint project of the agency and the state data processing staff.

TEXAS

AGENCY: Coordinating Board, Texas College and University System*

PROJECT PURPOSE:

To define the requirements for guarantee agency systems and to prepare a detailed plan for the implementation of a state guaranteed student loan program.

SCOPE OF PROJECT ACTIVITIES:

- Projected volumes for the following types of transactions:
  - Applications;
  - Loan servicing;
  - Preclaims assistance;
  - Claims; and
  - Collections.
- Defined the general characteristics of the manual and automated systems required.
- Prepared a systems requirements document.
- Developed a detailed implementation plan which included the following:
  - Activies required;
  - Schedule milestones;
  - Priorities;
  - Costs; and
  - Staffing requirements.
- Presented the implementation plan to the management of the Coordinating Board.

RESULTS:

The plan constitutes the basis upon which the guaranteed student loan program is being developed in Texas.

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* The Texas legislation calls for the creation of a public corporation to act as guarantor for the state. Until the corporation is created, responsibility for planning the implementation of a state guaranteed student loan program has been assigned to the Coordinating Board.

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UNITED STUDENT AID FUNDS

AGENCY: United Student Aid Funds (USAF) is the comprehensive servicer for the following state guarantee agencies:

1. Alaska
2. California
3. Delaware
4. Indiana
5. Iowa
6. Maine
7. Maryland
8. Missouri
9. Nevada
10. Utah
11. Virgin Islands

PROJECT PURPOSE:

To review information requirements of state agencies serviced by USAF and to make recommendations for improvements.

SCOPE OF PROJECT ACTIVITIES:

- Interviewed Office of Education representatives, state agency directors, and USAF staff concerning agency information requirements.
- Reviewed the Higher Education Act of 1965, as amended, program regulations, and other official documents for agency reporting and other information requirements.
- Reviewed proposed outputs of new USAF EDP system.
- Reviewed Touche Ross & Co. prototype systems for potential information needs of state agencies.
- Made a presentation of preliminary findings and recommendations to USAF management.
- Prepared a report of our findings, recommendations and summary of report uses.

RESULTS:

The report contains recommendations for additions to USAF's reports, summaries of report uses, and a matrix of data elements cross referenced with the USAF reports in which those data elements may be found. USAF is currently studying the recommendations contained in the report.

UTAH (I)

AGENCY: Utah Higher Education Assistance Authority
- Guaranteed Student Loan Program

PROJECT PURPOSE:

To develop and assist in the implementation of an accounting system for the guaranteed student loan program.

SCOPE OF PROJECT ACTIVITIES:

- Reviewed state laws and program resolutions for accounting system requirements.
- Reviewed the program servicer's system outputs and processing procedures.
- Interviewed the agency's director, a servicer representative, a representative of the State Treasurer's office, and others for their systems requirements and interface procedures.
- Prepared an accounting manual based on the Touche Ross & Co. prototype accounting system; the manual contained the following:
  - Chart of accounts;
  - Account descriptions;
  - List of posting sources by account;
  - Formats for various books of record;
  - Report formats;
  - Report preparation instructions; and
  - Sample transactions.
- Instructed the agency's accountant in the system's procedures.

RESULTS:

The accounting system has been implemented. Annual reports have been prepared for the fiscal year ending June 30, 1979. Only minor adjustments were made to the system during our follow-up visit to the agency.

UTAH (II)

AGENCY: Utah Higher Education Assistance Authority
- Loan Purchase Program (Secondary Market)

PROJECT PURPOSE:

To develop and assist in the implementation of an accounting system for the agency's loan purchase program.*

SCOPE OF PROJECT ACTIVITIES:

- Reviewed state laws, program resolutions, and the bond resolution to identify requirements for an accounting system.
- Reviewed the program and servicer's system outputs and operating procedures.
- Interviewed the agency's director and representatives of the servicer, trustee for the bond issue, and State Treasurer to identify additional requirements for the accounting system.
- Prepared an accounting manual for the loan purchase program; the manual contained the following:
  - Overview of the accounts and funds structure mandated by the bond resolution;
  - Chart of accounts;
  - Account descriptions;
  - List of posting sources by account;
  - Formats for various books of record;
  - Report formats; and
  - Sample transactions.
- Instructed the agency's accountant in the system's procedures.

RESULTS:

The new accounting system has been implemented. Annual reports have been prepared for the fiscal year ending June 30, 1979. Only minor adjustments were made to the system during our follow-up visit to the agency.

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* The Loan Purchase Program purchases existing loans from lenders using the proceeds of a tax exempt bond issue. The agency maintains its portfolio with the assistance of a servicer.

VIRGINIA

AGENCY: Virginia State Education Assistance Authority

PROJECT PURPOSE:

To develop "user requirements" for an EDP system which supports the functions of loan guarantee processing, loan servicing, student status verification, preclaims assistance, claims, and collections.*

SCOPE OF ACTIVITIES:

- Analyzed current EDP system and manual processing procedures for basic agency functions.
- Documented and reviewed requirements for new system.
- Developed a description of proposed system.
- Evaluated alternative technical approaches for meeting EDP requirements.
- Prepared EDP user requirements report for SEAA.
- Developed a long-range systems development plan for SEAA.
- Prepared General Requirements Document for use by other states in developing their EDP user requirements.
- Provided follow-up assistance during initial stages of systems development process.

RESULTS:

SEAA has a set of defined requirements for a new EDP system supporting all of the basic guarantee agency functions. This document was used in the development of a Request for Proposal and for the preparation of the General Design document by the selected systems contractor.

* This project led to the development of a prototype general requirements document which defines the EDP requirements of a medium-sized guarantee agency.

WASHINGTON

AGENCY: Washington Student Loan Guaranty Association

PROJECT PURPOSE:

To develop and assist in the implementation of an accounting system for the Washington Student Loan Guaranty Association.

SCOPE OF PROJECT ACTIVITIES:

- Reviewed state laws and program resolutions for accounting system requirements.
- Interviewed the agency director and others connected with the student loan program for their systems requirements.
- Prepared an accounting manual based on the Touche Ross & Co. prototype accounting system; the manual contained the following:
  - Chart of accounts;
  - Account descriptions;
  - List of posting sources by account;
  - Formats for various books of record;
  - Report formats; and
  - Sample transactions.
- Instructed the agency's staff in the system's procedures.

RESULTS:

The accounting system manual has been delivered, and the system is in the process of being implemented.